

ESTHETICS INTERNATIONAL GROUP Results Report Stock Code: 5081	Price:	RM0.87
	Market Capitalisation:	RM104.4m
	Board:	Main Board
	Sector:	Trading/Services
	Recommendation:	Buy

KEY STOCK STATISTICS

	2005	2006F
EPS (sen)	10.4	10.5
P/E (x)	8.4	8.3
Dividend/Share (sen)	6.0	7.5
NTA/Share (RM)	0.74	0.82
Book Value/Share (RM)	0.74	0.82
Issued Capital (mil shares)	117.8	120.0
52-weeks Share Price Range	RM0.76-RM1.16	
Major Shareholders	%	
Li mYee Soon	26.9	
Melissa Chen	22.4	

PER SHARE DATA

YE 30 Jan	2004	2005	2006F	2007F
Book value (RM)	0.67	0.74	0.82	0.89
Cash Flow (RM)	0.14	0.12	0.15	0.16
Earnings (sen)	12.1	10.4	10.5	13.1
Gross Dividend (sen)	2.5	6.0	7.5	9.5
Payout Ratio (%)	15.4	35.3	36.9	43.6
PER (x)	7.2	8.4	8.3	6.7
P/Cash Flow (x)	6.1	7.5	5.8	5.4
P/Book Value (x)	1.3	1.2	1.1	1.0
Dividend Yield (%)	2.9	6.9	8.6	10.9
ROE (%)	19.7	15.8	15.6	15.2
Net Gearing (%)	net cash	net cash	net cash	net cash

P&L ANALYSIS (RMm)

YE 30 Jan	2004	2005	2006F	2007F
Revenue	62.59	80.66	127.05	120.85
Operating profit	17.87	19.72	24.04	25.41
Depreciation	(2.17)	(2.33)	(3.49)	(3.65)
Net interest income	0.53	1.23	0.41	0.32
Exceptional items	-	-	-	-
Pre-associate profit	16.22	18.62	20.96	22.09
Associates	(0.19)	(0.89)	-	-
Pretax profit	16.04	17.73	20.96	22.09
Taxation	(4.33)	(5.46)	(6.29)	(6.40)
Minorities	(0.02)	(0.06)	(0.02)	-
Net profit	11.69	12.22	14.65	15.68
Operating margin (%)	28.6	24.4	18.9	21.0
Pretax margin (%)	25.6	22.0	16.5	18.3
Net margin (%)	18.7	15.2	11.5	13.0
Effective tax rate (%)	27.0	30.8	30.0	29.0

1 3Q FY06 Result Highlights

YE 30 Jan (RMm)	2Q06	3Q06	% QoQ
Revenue	22.6	25.9	14.3
EBITDA	4.7	5.5	17.0
Net Interest Inc / (Exp)	(0.0)	0.1	
Depreciation	(0.7)	(0.8)	
Pretax Profit	4.0	4.8	19.9
Net Profit	2.8	3.4	23.8
EBITDA margin (%)	20.8	21.3	
Pretax margin (%)	17.7	18.5	
Net margin (%)	12.3	13.3	

Below expectations. For the nine months ended October 2005, Esthetics International Group ("EIG") posted a net profit of RM7.7m. Notwithstanding the fact that the Group's fourth quarter results is usually its strongest, we believe that EIG would miss our forecast earnings of RM13.5m for the 12 months ending January 2006. The nine months net profit accounts for only 57.3% of our forecast earnings. For FY05, EIG had achieved 62.8% of net profit of RM12.2m in the first nine months.

Radiancy and higher sales in overseas markets lifted revenue by 14% QoQ. Turnover reached RM25.9m for the three months ended October 2005. The 14.3% or RM3.3m increase when compared with the preceding quarter, came mainly from export sales of Dermalogica products to Hong Kong and Vietnam (up RM2.2m) as well as higher sales to Cathay Pacific (+RM1.2m). Reflecting this, revenue from distribution activities rose 20.6% QoQ to RM24.5m to account for 69% of Group turnover.

Leonard Drake and Bella Lina, units that provide professional skincare services, contributed RM7.98m in turnover. The flattish turnover, when compared with the preceding quarter, was due to seasonal factors.

Net profit up a stronger 23.8% QoQ. Thanks to stable margins (18.1% vs 17.9% in 2QFY06), EIG was able to translate the higher turnover to a slightly stronger 17.0% rise in EBITDA to RM5.5m.

Although EIG earns lower margins from export sales of Dermalogica products, the Group's overall margins were held up by a full 3-month impact from a 3%-5%

increase in selling prices of Dermalogica products and professional services in June-July 2005.

With effective tax rate down marginally at 28.4%, net profit was up a bigger 23.8% QoQ to RM3.4m.

Dividend policy spelt out. Following a 2.5 sen per share payout for 2QFY06, no dividend was proposed for 3QFY06. The Board of Directors, however, made known its intentions to distribute between 30% to 50% of EIG's net profits to shareholders, for at least the next two financial years.

Gearing remains low, but cash reserves down. EIG reduced its borrowings from RM0.6m in end-July 2005 to a mere RM79,000 as at 31 October 2005. However, its cash reserves dwindled from RM21.6m to RM13.3m over the same period. Besides financing for its new corporate headquarters, part of the cash were used to finance its Radiancy franchise business. EIG gives its customers up to 18 months of credit for equipment purchase but it has to settle payments with Radiancy within 90 days.

2 Earnings Forecast

Financial year-end changed, ... EIG will be changing its financial year end from January to March from 31 March 2006. This means the Group would be reporting results for a 14-month period come March 2006.

... forecasts adjusted. To reflect the change in year-end as well as some fine-tuning made for revenue and margins, we have adjusted net profit from RM13.5m for FY1/06 to RM14.7m for FY3/06. Annualised earnings of RM12.6m would be a mere 3.3% higher than FY1/05's RM12.2m.

We have also revised net profit from RM16.5m for FY1/07 to RM15.7m for FY3/07.

Annualised FY06 earnings flat due mainly to start-up losses. On an annualised basis, FY06 turnover of RM108.9m would be 35% higher than FY1/05's RM80.7m. The robust growth in turnover would be underpinned mainly by maiden contributions from

Radiancy (agency secured in March 2005 with sales of RM5.0m for 9MFY06), and robust increases in Dermalogica sales to Hong Kong (up 64% YoY to RM10.8m for 9MFY06) and higher Clinelle sales (+75% YoY to RM3.4m for 9MFY06).

However, the higher turnover would be negated by (1) start-up losses from Lexwel International Sdn Bhd ("Lexwel"), EIG's direct selling unit, and (2) the six new professional skincare centres opened in FY06. For 9MFY06, the 5 new centres (all opened after June 2005) posted a RM400,000 loss.

FY3/07 earnings to grow 24.6%. We believe FY3/07 would be a much better year for EIG. Turnover is projected to grow by 11% to RM120.8m on strong export sales of Dermalogica products, a full 12-month impact from new skincare centres opened in FY06 and healthy increase in Clinelle sales as its product range expands.

Besides higher sales, profits would also be boosted by an expected recovery in margins - from 18.9% in FY06 to 21% in FY07. This would come from a turnaround at Clinelle and the Group's new skincare centres. A new skincare centre typically takes about 12 months to turn profitable.

Management remains optimistic Lexwel would be in the black after its first 12 months of operations. It is hopeful that plans to introduce by April 2006 a new range of skincare products for agents would give Lexwel the much needed boosted. We, however, do not share management's optimism.

3 Recommendation

Keeping our Buy call. At RM0.87, EIG shares are trading at 7.0x CY06 EPS of 12.4 sen and a low 5.9x CY07 EPS of 14.6 sen.

Maintaining our steep 50% discount to target market PER of 15x for 2006, we have a target multiple of 7.5x. This would value EIG at RM0.93. Although potential capital appreciation is now a lower 6.9%, after an 8% rise in share price since early-November 2005, there is still the very attractive dividend yield of 8%-10%.

We reiterate our Buy recommendation, particularly for those looking for attractive dividend yields.

Published by:

AmResearch Sdn Bhd(335015-P)
A member of the AmInvestment Group
15th Floor, Bangunan AmBank Group
55 Jalan Raja Chulan, 50200 Kuala Lumpur

Tel : (General) : 03-2078 2788/99 Facsimile: 03-20317218
(Dealing) : 03-2072 1866/99 Telex : MA 31796AMSEC
(Research) : 03-2070 2444

The information and opinions in this report were prepared by AmResearch Sdn Bhd. The investments discussed or recommended in this report may not be suitable for all investors. This report has been prepared for information purposes only and is not an offer to sell or a solicitation to buy any securities. The directors and employees of AmResearch Sdn Bhd may from time to time have a position in or with the securities mentioned herein. Members of the AmBank Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. The information herein was obtained or derived from sources that we believe are reliable, but while all reasonable care has been taken to ensure that stated facts are accurate and opinions fair and reasonable, we do not represent that it is accurate or complete and it should not be relied upon as such. No liability can be accepted for any loss that may arise from the use of this report. All opinions and estimates included in this report constitute our judgement as of this date and are subject to change without notice.

For AmResearch Sdn Bhd



Gan Kim Khoon
Executive Director